



STATE OF WASHINGTON

## ECONOMIC AND REVENUE FORECAST COUNCIL

*Capitol Plaza Building, PO Box 40912 • Olympia, Washington 98504-0912 • (360) 570-6100*

December 11, 2006

**TO:** Representative Jim McIntire, Chair  
Senator Joseph Zarelli  
Senator Lisa Brown  
Representative Ed Orcutt  
Victor Moore, OFM, Director  
Cindi Holmstrom, DOR, Director

**FROM:** ChangMook Sohn, Executive Director  
Economic and Revenue Forecast Council

**SUBJECT:** December 10, 2006 REVENUE COLLECTION REPORT

General Fund-State (GFS) collections totaled \$1,428.6 million in the November 11 – December 10, 2006 period. Economic activity remains healthy and revenue continues to grow a little bit faster than assumed in the forecast. Tax payments were \$10.6 million (0.8 percent) above the estimate for the month and are up \$13.6 million cumulatively since the November forecast due to a \$3.0 million upward revision to last month's total. Revenue Act (sales, use business and occupation and public utility taxes) accounted for more than the total variance for the month, exceeding the estimate by \$12.7 million. Real estate and timber excise as well as "other" taxes were a little below the estimate for the month. Consumer spending remains brisk and shows little sign of slowing despite a weaker housing market.

Recent economic news has been generally positive and indicates a still healthy but slowing economy. Nationally, the rate of growth of real gross domestic product, the broadest measure of economic activity, slowed from 2.6 percent in the second quarter to 2.2 percent in the third quarter, primarily due to the contraction in the housing sector. Despite the housing slowdown, job creation was better than expected. The U.S. economy added 132,000 new jobs in October and there was an upward revision to the weak September number. The unemployment rate, however, increased to 4.5 percent in October from 4.4 percent (a five year low) in September. At the state level, the unemployment rate in Washington fell sharply from 5.3 percent in September to 4.8 percent in October. Other indicators at the national level are mixed. The Conference Board reported that the U.S. Index of Leading Indicators increased in both October and September (revised) after falling in July and August. The Index has increased in three of the last six months but has declined slightly (-0.6 percent) over this period. The Conference Board also reported that its Index of Consumer Confidence which was down in October fell again in November. This Index has declined three of the last 4 months and is 6.2 percent below its cyclical high reached in April 2006.

Revenue Act collections were \$12.7 million above the estimate this month. Receipts this period primarily reflect October 2006 activity of monthly taxpayers. Revenue Act collections for the month were 9.0 percent above the year-ago level (adjusting for special factors). This is stronger than last month, +8.5 percent and is about the same as the average for the third quarter (+9.1 percent). The increase this month is a little less, however, than the average for the last year (10.4 percent) but it is still much faster than retail sales nationally (+4.5 percent) and the growth in state personal income (+7.5 percent).

Preliminary information on tax payments by industry from taxpayers filing electronically shows most sectors of the economy reporting another month of moderate to strong growth. Tax payments by firms in the retail trade and food services sector increased 9.5 percent. Last month retailers reported an 8.7 percent increase. The biggest change from last month was in the auto sectors. Tax payments by businesses in the auto sector, the largest retail trade category, were up 9.5 percent from the year-ago month, after increasing only 1.1 percent last month. Excluding autos, the retail trade sector increased 9.5 percent, down from 9.7 percent last month. Three of the twelve major retailing categories reported double-digit increases this month. The sectors with the strongest growth were general merchandise stores (+17 percent), electronics and appliance stores (+11.8 percent) and miscellaneous retailers (+10.8 percent). Gas stations reported a 1.8 percent decline in tax payments. Payments by firms in non-retail trade and food services sectors were up 13.5 percent as a whole for the month. Last month tax payments from the non-retail trade sector increased 9.8 percent. Despite weakening real estate excise tax payments, excise taxes paid by the construction sector remained relatively strong this month, with tax payments 11.9 percent higher than a year-ago. Last month this sector reported a 17.3 percent increase. Double-digit growth was reported by the manufacturing sector (+20.2 percent) and finance and insurance (+10.3 percent.) The only major sector reporting a year-over-year decline in tax payments this period was the professional, scientific and technical services sector (-9.0 percent). For the first time in more than two years, tax payments of firms in construction and housing related sectors grew a little slower than other sectors of the economy. This month's preliminary data shows tax payment from construction related sectors up 9.5 percent compared to 9.7 percent for all other sectors.

Non-Revenue Act General Fund taxes were \$2.1 million below the estimate for the month. Real estate excise tax payments (-\$1.2 million), liquor (-\$302,000), timber excise (-\$618,000), estate and "other" (-\$933,000) taxes were a little less than the estimate for the month. The shortfall in real estate excise tax payments is overstated. Normally, real estate excise collections for a month primarily consist of receipts from the state's thirty-nine counties. This month real estate excise tax receipts from Pierce County were not received by the cut-off date for the month and are not in the total for the month; Pierce County's November's receipts will be included in next month's total.

Real estate payments this month reflect closings reported by counties for the October 30th through November 28<sup>th</sup>, 2006 period. Activity based on tax payments indicate some slowing in housing but not quite as much as expected in the forecast. Excluding Pierce County, activity was 2.0 percent lower than a year-ago. This is weaker than last month (+6.6 percent) but better than reported two months ago (-9.9 percent). Prices remain strong. A breakdown of the number of transactions and average value per transaction is not yet available for November, but last month, the number of transactions were 7.8 percent lower than a year-ago (the eleventh consecutive monthly decline), while the average value per transaction increased 15.6 percent.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$45,000 above the estimate for the month.

The attached Table 1 provides a comparison of collections with the November 2006 forecast for the November 11, 2006 –December 10, 2006 collection period and cumulatively since the November forecast. The cumulative variance reported in the table is about \$3.0 million higher than for the month. This is due to a revision to the November 10 total. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

**TABLE 1**  
**Revenue Collection Report**  
**December 10, 2006 Collections Compared to the November 2006 Forecast**  
**Thousands of Dollars**

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u> <u>Amount</u>	<u>Percent</u>
<b>Nov. 11 - December 10, 2006</b>				
Department of Revenue-Total	\$1,410,200	\$1,420,794	\$10,594	0.8%
Revenue Act** (1)	802,145	814,831	12,686	1.6%
Non-Revenue Act(2)	608,055	605,963	(2,092)	-0.3%
Liquor Sales/Liter	11,887	11,585	(302)	-2.5%
Cigarette	3,996	4,210	214	5.4%
Property (State School Levy)	489,430	490,169	740	0.2%
Estate	88	75	(13)	NC
Real Estate Excise	65,054	63,874	(1,180)	-1.8%
Timber (state share)	2,445	1,827	(618)	-25.3%
Other	35,155	34,223	(933)	-2.7%
Department of Licensing (2)	187	232	45	24.3%
Lottery (5)	7,617	7,618	1	0.0%
Total General Fund-State***	\$1,418,004	\$1,428,644	\$10,640	0.8%
<b>Cumulative Variance Since the November 2006 Forecast (Nov. 11, 2006 - Dec. 10, 2006)</b>				
Department of Revenue-Total	\$1,410,200	1,423,841	13,641	1.0%
Revenue Act** (3)	802,145	817,872	15,726	2.0%
Non-Revenue Act(4)	608,055	605,970	(2,085)	-0.3%
Liquor Sales/Liter	11,887	11,585	(302)	-2.5%
Cigarette	3,996	4,210	214	5.4%
Property (State School Levy)	489,430	490,177	747	0.2%
Estate	88	75	(13)	NA
Real Estate Excise	65,054	63,874	(1,180)	-1.8%
Timber (state share)	2,445	1,827	(618)	-25.3%
Other	35,155	34,223	(933)	-2.7%
Department of Licensing (4)	187	168	(19)	-10.0%
Lottery (5)	7,617	7,618	1	0.0%
Total General Fund-State***	\$1,418,004	\$1,431,627	\$13,623	1.0%

1 Collections Nov. 11 - Dec. 10, 2006. Collections primarily reflect October 2006 activity of monthly taxpayers.

2 November 2006 collections.

3 Cumulative collections, estimates and variance since the November 2006 forecast; (Nov. 11 - December 10, 2006) and revisions to history.

4 Cumulative collections, estimates and variance since the November 2006 forecast; (November 2006) and revisions to history.

5 Lottery transfers to the General Fund

\* Based on the November 2006 economic and revenue forecast.

\*\*The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

\*\*\* Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

**TABLE 2**  
**November 10, 2006 Collection Report - Revised Data**  
**Thousands of Dollars**

<u>Period/Source</u>	<u>Collections Preliminary</u>	<u>Revised</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
Oct. 11 - November 10, 2006				
Department of Revenue-Total	\$1,191,713	\$1,194,754	\$3,041	0.3%
Revenue Act (1)	1,030,373	1,033,414	3,041	0.3%
Non-Revenue Act(2)	161,340	161,340	(0)	-0.0%
Liquor Sales/Liter	11,720	11,720	(0)	-0.0%
Cigarette	4,602	4,602	0	0.0%
Property (State School Levy)-net	7,471	7,471	(0)	-0.0%
Estate	391	391	0	0.0%
Real Estate Excise	83,605	83,619	14	0.0%
Timber (state share)	0	0	0	NA
Other	53,551	53,537	(14)	-0.0%
Department of Licensing (2)	444	340	(104)	-23.4%
Lottery (2)	0	0	0	NA
Total General Fund-State***	1,192,158	1,195,094	\$2,936	0.2%

**Cumulative Receipts: Sept. 11 - November 10, 2006 & Revisions to History**

Department of Revenue-Total	\$2,189,306	\$2,192,350	\$3,044	0.1%
Revenue Act (3)	1,941,098	1,944,139	3,041	0.2%
Non-Revenue Act(4)	248,208	248,211	3	0.0%
Liquor Sales/Liter	24,420	24,420	(0)	-0.0%
Cigarette	9,014	9,014	0	0.0%
Property (State School Levy)-net after transfr	(3,335)	(3,331)	4	-0.1%
Estate	398	408	10	2.4%
Real Estate Excise	159,502	159,344	(158)	-0.1%
Timber (state share)	0	(0)	(0)	NA
Other	58,208	58,357	149	0.3%
Department of Licensing (4)	978	905	(73)	-7.5%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$2,190,284	\$2,193,255	\$2,971	0.1%

Preliminary. Reported in the November 10, 2006 collection report.

1 Collections Oct. 11 - November 10, 2006. Collections primarily reflect Sept. 2006 business activity of monthly taxpayers and q3, 2006 activity of quarterly filers.

2 October 1-31, 2006 collections.

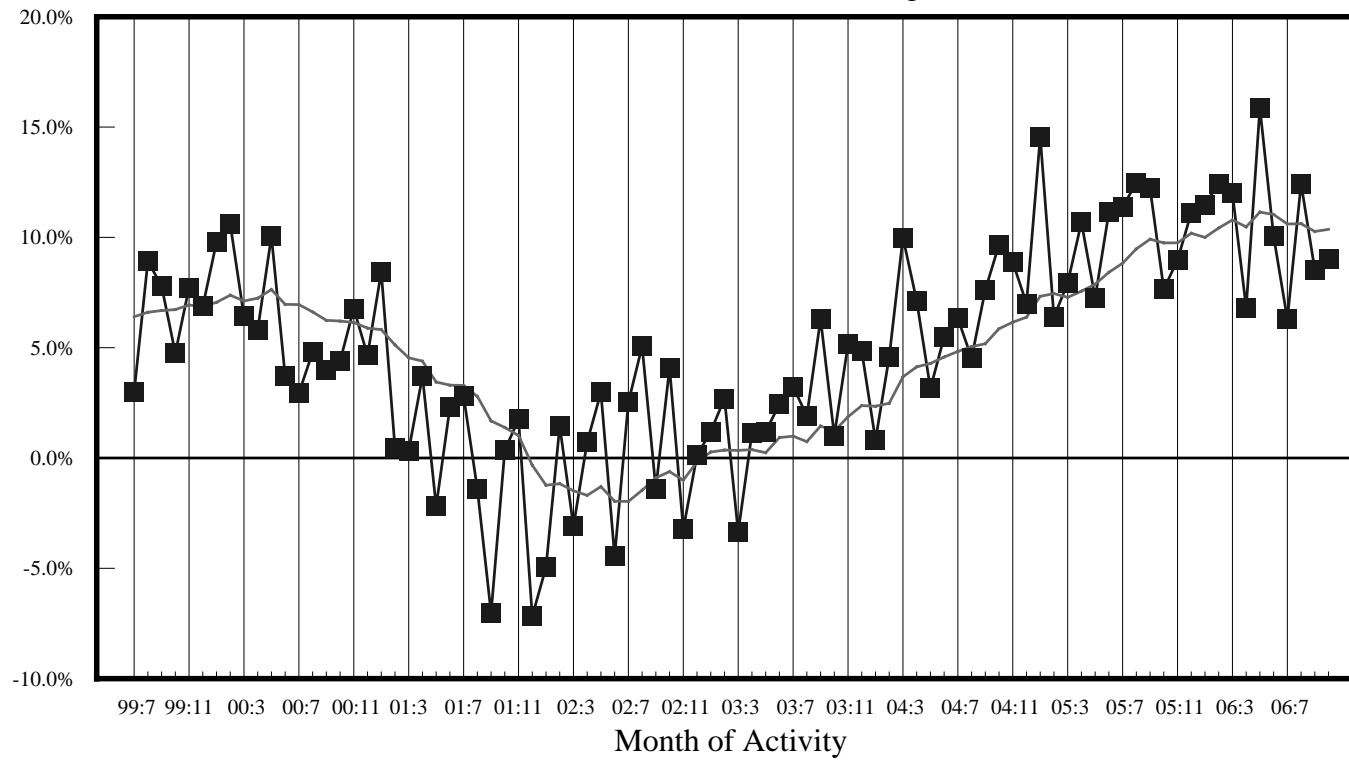
3 Cumulative receipts since the Sept. 2006 forecast: Sept. 11-Nov. 10,2006 & revisions to history.

4 Cumulative receipts since the September 2006 forecast (Sept. 2006- October 2006) & revisions to history.

\* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

# Revenue Act Net Collections

Year-over-Year Percent Change



■ Percent change from year-ago month  
— Average Growth ( twelve month moving average.)

\*growth adjusted for new legislation and unusually large assessment payments/refunds etc.